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C O N F I D E N T I A L SECTION 01 OF 02 RIGA 000576

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TAGS: [PREL](#) [PGOV](#) [ECON](#) [MOPS](#) [LV](#)  
SUBJECT: LATVIA: DAS QUANRUD BOLSTERS ENGAGEMENT

REF: A) SECSTATE 123222 B) SECSTATE 120288 C)  
SECSTATE 120807 D) RIGA 573 E) RIGA 567 F)  
RIGA 566

Classified By: Ambassador Judith Garber, reasons 1.5 (B) and (D)

¶1. (C) Summary. Latvia's political leadership firmly and unequivocally supports President Obama's Afghanistan policy, and will maintain its own caveat-free troop contribution in the face of severe economic crisis at home. The Government of Latvia appreciates USG assurances of support on NATO collective security, and will approach relations with Russia pragmatically, without sacrificing principles. Within the EU, Latvia will support the U.S. position on possible Iranian sanctions. Both the government and leading private sector elements believe that Latvia's economic growth will resume very slowly in the second half of 2010, and that no powerful engines or formulas exist for spurring robust growth in the near future. While large gas storage facilities will ensure Latvian energy security over the coming winter, long-term challenges in energy diversification, and in fighting corruption are both recognized as considerable. End Summary.

¶2. (SBU) EUR DAS Pamela Quanrud visited Latvia November 30 - December 2. She met the Minister of Finance, and high-level officials from the Office of the President, the Ministry of Foreign Affairs, the Ministry of Defense, and Ministry of Economics. Quanrud also met with the Foreign Affairs Committee of Parliament, the Chair of the Latvian Chamber of Commerce, and Latvian Banking Association officials. She rolled out the President's Afghanistan strategy in a December 2 press roundtable, and held an outreach activity with youth leaders from parties across the Latvian political-ethnic spectrum. Several salient themes emerged throughout the meetings:

Afghanistan

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¶3. (C) Latvian officials expressed strong resolve in backing President Obama's way forward in Afghanistan and Pakistan (refs A, C and F), noting that despite a massive 18.7% third-quarter year-on-year drop in GDP, Latvia would maintain its presence of 175 caveat-free troops in Afghanistan. No substantial Latvian troop increases were possible, but Latvian officials undertook to encourage other European powers to contribute more, commensurate with their economic capabilities. DAS Quanrud expressed appreciation for Latvia's sustained contribution, firmly at the upper end of the NATO scale in relation to Latvia's population and GDP. Latvian interlocutors, particularly in Parliament, were eager to see Latvian firms compete for supply contracts for the thousands of container loads of non-lethal equipment heading through Riga port and on Latvian railways en route to Afghanistan. The MFA indicated they will need "messages of reinforcement" from the U.S. on Afghanistan if other allies begin to leave early. The MFA also expressed the hope that better U.S.-Uzbek relations could speed the transit of supplies for Afghanistan through Central Asia.

NATO

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¶4. (C) Latvian officials continued to assure us that they wanted no public discussion of a NATO Contingency Plan for the Baltics, but that they desired smooth, quiet progress toward that end, particularly through the Military Committee.

DAS Quanrud underscored that the U.S. commitment to Article 5 of the NATO Treaty is the bedrock of our foreign policy. She stated our belief that NATO needs to have in place all the resources necessary to support Article 5. While adequate planning is one aspect, other factors, such as capabilities, readiness and infrastructure, were also critical. Latvian officials appreciated these reassurances, and hoped to hear more about our plans in the near future.

Russia and its Neighbors

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¶5. (C) Latvian Presidency and MFA officials articulated a pragmatic, yet principled approach to engagement with Russia.

MFA officials expressed concern about Russian hesitation to conclude agreements on investment protection and double-taxation. The MFA was as puzzled by Medvedev's offer of what they considered an unserious draft European Security Treaty, as they were by strange Russian behavior at the NATO-Russia Council. MOD officials hoped that the High North would be a good test ground for pragmatic re-engagement with Russia -- thanks to the lack of historical tensions and legacy issues in this region. The MFA also expressed strong commitment to participation in the Eastern Partnership, and

RIGA 00000576 002 OF 002

supported Turkey's eventual accession to the EU.

Iran

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¶6. (C) Presidency and MFA officials alike expressed support for President Obama's approach on Iran (refs B and E), and hoped that the Europeans could support that position with greater unanimity. Presidency officials noted they had studied the impact of sanctions on Latvia, and determined they would be minimal. We were assured that AirBaltic would not establish a direct route from Riga to Tehran. With regard to sanctions, the MFA noted that while "there were two schools of thought within the EU on sanctions," Latvia was in the pro-sanctions camp.

The Budget

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¶7. (SBU) Finance Minister Einars Repse met DAS Quanrud November 30, on the eve of the most difficult budget debate of Latvia's post-independence history. (ref D) Tax rate increases, new taxes, and spending cuts were painful, Repse recognized, but necessary to demonstrate Latvia's credibility to international lenders. Repse acknowledged that the 2011 budget would also require further cuts, and that spending increases would not be likely until 2013. DAS Quanrud assured the Minister and other Latvian officials throughout the visit that Latvia's hard choices would earn long-term dividends in investor confidence.

The Economy

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¶8. (SBU) Latvian officials and private sector figures recognized that Latvia could not revert to growth based on domestic consumption, and that exports were essential. While wage decline has made export-oriented investment more attractive, interlocutors recognized that a slow global economy would make Latvia's future growth gradual. Despite the health of the transportation sector (particularly railways and ports), few real engines for sustained growth

could be readily identified. Bankers were particularly gloomy about the limited prospect for anything other than slow growth in the years ahead, and thought Euro accession was unlikely before 2015, due to difficulties in meeting Maastricht deficit and debt criteria.

#### Energy -----

¶9. (SBU) Economics Ministry officials claimed that Latvia would not suffer power shortages as a result of the Ignalina nuclear power plant closure in Lithuania, and were confident that large Latvian gas storage facilities will protect Latvia from gas shut-offs from Russia. The officials believed that a new coal/biomass power plant under construction in Liepaja, the NordBalt undersea electric cable, and further advances in renewables technology would contribute to greater diversity of energy supply over time. They admitted that greater predictability, transparency and stability in setting tariff rates and policy were needed to attract foreign investors to the energy sector.

#### Transparency -----

¶10. (SBU) The Latvian Chamber of Commerce and Industry was particularly concerned about the problem of corruption, and the prospect of "state capture" by corrupt "oligarchs" in October 2010 elections. They were considering establishing an anti-corruption code of conduct for a critical mass of Latvian businesses to adopt. The Minister of Finance expressed the hope that careful monitoring, changes in revenue service management, and public intolerance for corruption in a time of economic crisis, could combat the corruption problem.

¶11. (C) Comment: This visit did much to reinforce our core embassy goal of "Keeping Latvia Engaged." The unusual confluence of the historic Presidential decision on Afghanistan, the passage of a crucial and contentious Latvian budget, and Iran's growing intransigence on its nuclear program all made this visit particularly well timed and useful. A peaceful November 30 protest by hundreds of Latvian bikers unhappy at paying a new 48USD annual motorcycle tax was a colorful, if noisy, reminder of Latvian democracy in action.

GARBER